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C O N F I D E N T I A L JERUSALEM 000496

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NEA FOR FRONT OFFICE; NEA/IPA FOR
WILLIAMS/SHAMPAINE/STEINGER; NSC FOR ABRAMS/DORAN/WATERS;
TREASURY FOR SZUBIN/LOEFFLER/NUGENT/HIRSON

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SUBJECT: EAST JERUSALEM PALESTINIANS PURSUE LIMITED HOUSING
PROJECT OPPORTUNITIES

Classified By: Consul General Jake Walles, Reasons 1.4 (b) and (d).

11. (SBU) Summary: Advocates of improved housing for Palestinian residents of East Jerusalem report that privately-financed development proposals have elicited some positive response from the Jerusalem Municipality. Israeli restrictions on movement and the near completion of the separation barrier have spurred Palestinians to return to East Jerusalem, thus further exacerbating an already acute housing shortage. The East Jerusalem housing developments being advanced, however, target the needs of wealthy Palestinians, not the growing urban poor. End Summary.

12. (C) In a March 1 meeting with Econoffs, Rami Nasrallah, Board Chairman of the International Peace Cooperation Center (IPCC), and Tarek Abdel-Ghany, West Bank/Gaza Country Director of the Near East Foundation, reported that the Jerusalem Municipality has offered some encouragement to several multiple-unit housing project proposals for Palestinian areas of East Jerusalem. Nasrallah and Abdel-Ghany attributed the municipality's shift in approach to its recognition that something has to be done to stem illegal construction and reverse the severe deterioration of East Jerusalem neighborhoods.

Downward Spiral

13. (C) Nasrallah and Abdel-Ghany said that highly restrictive GOI policies on housing construction in East Jerusalem since 1967 have fostered the flight of middle class Palestinians to nearby areas of the West Bank where cheaper and more spacious housing options are available. Former middle class neighborhoods of East Jerusalem, such as Silwan and As Suwwana, have been reduced to slums. Nasrallah said that Palestinians remaining in East Jerusalem have focused on individual survival with little attention to urban development. He added that Palestinian property owners have been reluctant to provide public use areas, as required under Israeli zoning regulations governing housing construction. People often take matters into their own hands, adding floors or constructing new houses without the necessary permits.

14. (C) However, the separation barrier and the associated increased restrictions on movement have reversed this trend and spurred middle class Palestinians with Israeli residency permits (Blue ID Holders) to return to East Jerusalem or risk losing their residence rights. Palestinians residing outside the separation barrier but working in East Jerusalem have migrated to East Jerusalem in increasing numbers to maintain

access to their jobs. Thus an already serious housing shortage has gotten significantly worse.

Targeted/Coordinated Development

¶15. (C) Nasrallah stated that the municipality's receptivity to housing proposals remains limited to projects that are medium in size, coordinated with other relevant GOI entities, such as the Ministry of Interior, privately financed, and on land owned and inhabited by Palestinians, such as Beit Hanina and Sho'fat, that are unfavorably situated for possible Jewish neighborhood expansion. Nasrallah and Abdel-Ghany emphasized that the municipality's approach offered organized groups of investors a better chance of success. He cited several such projects either completed in the past year or currently under construction. Noting that Palestinians have about USD 4 billion in long-term savings in local bank accounts, Nasrallah said that investors will be eager to back housing projects that meet municipality criteria, particularly if loan guarantees are provided.

¶16. (C) Comment: The developments mentioned cater to upper middle class Palestinians who can afford to pay several hundred thousand dollars for an apartment. The private sector investors naturally expect to return a profit, and rising demand for high-end housing is attracting interest.
End comment.

DUFFY